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TAGS: [ECON](#) [EFIN](#) [ELAB](#) [KS](#) [PGOV](#) [SOCI](#)  
SUBJECT: SOUTH KOREA FACES PENSION REFORM

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Classified By: CHARGE D'AFFAIRES BILL STANTON FOR REASONS 1.4 B&D.

#### SUMMARY AND INTRODUCTION

11. (SBU) Korea is on the verge of a gray transformation, with its elderly moving from 9 percent to 38 percent of its total population by 2050. This aging trend threatens to explode the cost of Korea's National Pension System (NPS) from 0.4 percent of GDP in 2005 to 7.3 percent of GDP by 2050 ) and possibly up to a quarter of GDP by 2050, if serious coverage gaps are eliminated and health care costs included. While the ROKG launched a long-term plan, called "Vision 2030," last summer to begin thinking about Korea's aging dilemma, they had hoped to defer specific proposals to tinker with the NPS and fund its future shortfall until well after the Presidential election of December 2007.

12. (C) Minister of Health and Welfare Rhyu Si-min changed that 'wait-and-see' approach over the past few months. He aggressively pushed a ruling Uri-party bill in the National Assembly that would require people "to pay more, receive less," while the opposition Grand National Party bill carved out a "pay at current levels, receive less" position. Both parties remain far apart, and the Health Minister recently offered to resign over the impasse. President Roh is now entering the fray and has authorized new Prime Minister Han Duk-soo to craft a possible compromise. However, most observers remain deeply skeptical that a deal can be struck and predict pension reform will become another political football as presidential campaigning heats up. END SUMMARY.

Worrying about Grandparents...

13. (SBU) Korea faces an aging crisis, chiefly due to declining fertility, improved health care, healthier life styles, and limited immigration. These demographic trends are highly likely to catapult Korea into the same league as Japan, Italy, and Spain as one of the most aged countries in the world. Moreover, as many Koreans contemplate their own

retirements, particularly the 'baby boom' wave following the Korean War, they have begun to realize their growing vulnerability will not be addressed by the NPS, established in 1988 and still covering only 23 percent of adults over 60 years of age. It is glaringly obvious that the NPS, despite its limited coverage, will deplete itself by 2047 unless premiums into it are raised and payouts reduced, according to most experts.

Vision 2030...

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¶4. (SBU) Over the past two years, the ROKG has begun to grapple with the aging challenge. In August 2006, it issued a "five-year aging plan" that includes concrete measures, from subsidies for companies that hire or retain older workers to subsidies for families to help pay for children's day care and education. At the same time, Deputy Prime Minister (and Minister of Finance and Economy) Kwon O-kyu unveiled the ROKG's "Vision 2030" blueprint chiefly to address the needs of Korea's considerable baby-boom generation that will begin retiring in 2015, possibly contributing to labor shortages and spiraling health and pension costs as early as 2030.

...makes people think.

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¶5. (C) In his public statements, DPM Kwon repeatedly emphasized his Vision 2030 plan is aimed at "making people think" about the long-term policies needed to deal with the looming retirement crisis. It studiously avoided proposing specific ways to cover the projected NPS shortfall. In an October 2006 meeting with the Ambassador, Kwon stressed the Roh administration had no plans to increase NPS pension premiums or introduce new taxes to make up the NPS shortfall. Indeed, Kwon opined the next elected government would be in a better position to address such questions, probably by ¶2010. In the meantime, Kwon identified five priorities as more feasible: R&D promotion, educational reform, deregulation, market liberalization through ongoing KORUS-FTA talks, and an expanded welfare system.

Health Minister Rhyu to the rescue...

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¶6. (C) Minister of Health and Welfare Rhyu Si-min, a confidante of President Roh and a possible Uri-party presidential candidate, jettisoned Kwon's wait-and-see approach almost as soon as it was unveiled. He used the Vision 2030 platform of think-tanks to cobble together an impressive consensus of experts on the deficit-ridden NPS, spoke out about NPS shortcomings that resonate among a populace increasingly concerned about their financial security, and then aggressively pushed a specific NPS reform proposal in the National Assembly.

¶7. (SBU) Health Minister Rhyu's bill (-) sponsored by a majority of the ruling Uri party ) called for lowering pension payouts from 60 to 50 percent of salary levels by 2008, while raising subscriber contributions from 9 to 12.9 percent by 2018. On April 2, it was soundly defeated along with a similar bill proposed by the opposition Grand National Party that called for maintaining current premium levels but lowering payouts from 60 to 50 percent by 2009 and to 40 percent by 2018.

...then tries to resign.

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¶8. (C) On April 6, Rhyu offered to resign as a result of his failure to win legislative approval for his reform bill. President Roh declined to accept it and is now girding up to champion Rhyu's reform ideas, if not his specific proposal. On April 10, President Roh tapped new Prime Minister Han Duk-soo to take charge of legislative consultations and build consensus for a compromise reform bill. Most observers note, however, that even the ruling party coalition is deeply split over any NPS reform and unlikely to reach a consensus. Just as importantly, any proposal to cut back pension benefits in an election year is widely viewed as political suicide, "fanning yourself with a burning fan." Few expect a

breakthrough, as presidential campaigning intensifies.

Comment

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¶9. (C) The pension reform debate is likely to heat up but not result in any quick legislative action except boosting stipends for the elderly poor. Indeed, the Assembly passed such a provision on April 2, but President Roh has threatened to veto it. Rhyu called the partial measure a "major disaster" in the absence of more comprehensive reform. The elderly poverty rate is swelling in Korea -- now three times that of the young, as extended family support networks cover only 44 percent of the elderly as opposed to 81 percent in ¶1980. These trends -- coupled with the country's strong sense of social solidarity and Confucian ethic of respect for the aged ) back up the Assembly's consensus on increased payouts for lower-income seniors. For now, then, pension reform seems to entail only tinkering around the margins of an increasingly shaky but politically untouchable pension system.

¶10. (C) Despite its sensitivity, pension reform is clearly on the scope of most Presidential candidates. Candidates will not be able to wiggle out of it, if President Roh follows through on his promise to give pension reform a high priority. Moreover, Health Minister Rhyu's resignation attempt probably signals his intent to announce his presidential candidacy down the road and to use pension reform as a rallying cry for his own brand of economic activism and financial responsibility. The problem for Rhyu may be that the electorate does not want to focus on, or support scaled-back pension payouts at this time. End comment.  
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